

HUMBOLDT COUNTY MEMORIAL HOSPITAL
INDEPENDENT AUDITOR'S REPORT
FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION
YEARS ENDED JUNE 30, 2015 AND 2014

HUMBOLDT COUNTY MEMORIAL HOSPITAL

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HUMBOLDT COUNTY MEMORIAL HOSPITAL
Officials
June 30, 2015

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Rod Harklau, Chairperson	Humboldt, Iowa	2018
Steve Long, Vice-Chairperson	Humboldt, Iowa	2016
David Boswell, Secretary	Humboldt, Iowa	2016
Scott Curran, Treasurer	Humboldt, Iowa	2018
Marlene Thompson	Humboldt, Iowa	2016
Natalie Wergeland	Hardy, Iowa	2018
Pam Olson	Humboldt, Iowa	2020
<u>Chief Executive Officer:</u>		
Michelle Sleiter	Humboldt, Iowa	
<u>Chief Financial Officer:</u>		
Heather Shaull	Humboldt, Iowa	

Gronewold, Bell, Kyhnn & Co. P.C.

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Humboldt County Memorial Hospital
Humboldt, Iowa

Report on the Financial Statements

We have audited the accompanying financial statements of Humboldt County Memorial Hospital (Hospital) and its discretely presented component unit, Humboldt County Memorial Hospital Foundation (Foundation) as of June 30, 2015 and 2014 and related notes to the financial statements, which collectively comprise the Hospital's financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Hospital's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

To the Board of Trustees
Humboldt County Memorial Hospital

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Basis for Qualified Opinion - Hospital

The financial statements do not include an estimate of an Other Post Employment Benefits (OPEB) liability for an implicit health insurance premium rate subsidy resulting from the legal requirement to allow employees retiring after age 55 to remain on the Hospital's healthcare plan until age 65. Accounting principles generally accepted in the United States of America require that any material liability resulting from this OPEB requirement be included in the financial statements (Note M).

Qualified Opinion - Hospital

In our opinion, except for the effect of not including an estimated OPEB liability for the implicit health insurance premium rate subsidy, as discussed in the previous section, the financial statements referred to above present fairly in all material respects, the financial position of Humboldt County Memorial Hospital as of June 30, 2015 and 2014 and the results of its operations, changes in financial position, and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Unmodified Opinion - Foundation

In our opinion the financial statements (Foundation) referred to above present fairly, in all material respects, the financial position of the Foundation as of June 30, 2015 and 2014 and the results of its operations, changes in net assets, and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

As discussed in Note N to the financial statements, Humboldt County Memorial Hospital adopted new accounting guidance related to Government Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions - an Amendment to GASB Statement No. 27*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require Management's Discussion and Analysis, the Budgetary Comparison Information, and the Schedules of the Hospital's Proportionate Share of the Net Pension Liability and of Hospital Contributions (and the related notes) on pages 3 through 3d and on pages 32 through 36 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the required supplementary information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

To the Board of Trustees
Humboldt County Memorial Hospital

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated October 30, 2015 on our consideration of Humboldt County Memorial Hospital's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations and contracts. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and important for assessing the results of our audit.

Shannon, Bell, Hyman & Co. P.C.

Atlantic, Iowa
October 30, 2015



Committed to Serve; Compassion to Care

HUMBOLDT COUNTY MEMORIAL HOSPITAL

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HUMBOLDT COUNTY MEMORIAL HOSPITAL Management's Discussion and Analysis

The financial statements enclosed contain the financial information of Humboldt County Memorial Hospital (the Hospital) and Humboldt County Memorial Hospital Foundation. This discussion and analysis of the Hospital's financial performance provides an overview of their financial activity for the fiscal years ended June 30, 2015, 2014, and 2013. Please read it in conjunction with the Hospital's financial statements, which begin on page 4. The financial information of the discretely presented Humboldt County Memorial Hospital Foundation is not a part of this discussion and analysis.

FINANCIAL HIGHLIGHTS

The Hospital's net position decreased by \$3,963,638 or 22.2 percent from 2014 to 2015 and decreased by \$472,329 or 2.6 percent from 2013 to 2014. See 3b for explanation of July 1, 2014 decrease.

The Hospital reported an operating loss of \$367,711 in 2015 and an operating loss of \$378,968 in 2014. The 2015 results reflect an increase of \$11,257 as compared to 2014 results. Operating profit decreased in 2014 as compared to 2013 by \$416,854.

Net non-operating revenues increased by \$20,048 or 6.0 percent in 2015 compared to 2014. Net non-operating revenues decreased in 2014 by \$390,460 or 53.7 percent as compared to 2013.

USING THIS ANNUAL REPORT

The Hospital's financial statements consist of three statements - a Statement of Net Position; a Statement of Revenues, Expenses, and Changes in Net Position; and a Statement of Cash Flows. These financial statements and related notes provide information about the activities of the Hospital, including resources held by the Hospital but restricted for specific purposes by contributors, grantors, or enabling legislation.

THE STATEMENT OF NET POSITION AND STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

Our analysis of the Hospital finances begins on page 4 of the financial statements. One of the most important questions to ask about the Hospital's finances is, "Is the Hospital as a whole better or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position report information about the Hospital's resources and its activities in a way that helps answer this question. These statements include all assets (restricted and unrestricted), all deferred outflows of resources, all liabilities and all deferred inflows of resources using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Hospital's net position and changes in them. You can think of the Hospital's net position - the difference between assets and deferred outflows of resources less liabilities and deferred inflows of resources - as one way to measure the Hospital's financial health, or financial position. Over time, increases or decreases in the Hospital's net position are one indicator of whether its financial health is improving or deteriorating. However, you will need to consider other non-financial factors such as changes in the Hospital's patient base, changes in local medical staff, access to visiting medical specialists as well as local economic factors to assess the overall health of the Hospital.

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Management's Discussion and Analysis - Continued

THE STATEMENT OF CASH FLOWS

The final required statement is the Statement of Cash Flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities. It provides answers to such questions as "Where did cash come from?" "What was cash used for?" and "What was the change in cash balance during the reporting period?"

THE HOSPITAL'S NET POSITION

The Hospital's net position is the difference between its assets and deferred outflows of resources and liabilities and deferred inflows of resources as reported in the Statement of Net Position on page 4 of the financial statements. The following table, Table 1, presents a summary of the Hospital's Statements of Net Position.

Table 1: Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position

	2015	Not Restated 2014	2013
Assets and Deferred Outflows of Resources:			
Current assets	\$ 7,017,633	\$ 3,766,731	\$ 3,683,293
Capital assets, net	10,181,668	11,407,731	10,757,905
Other non-current assets	5,721,423	5,950,112	7,496,810
Deferred outflows of resources	<u>870,176</u>	<u>--</u>	<u>--</u>
Total assets and deferred outflows of resources	<u>\$ 23,790,900</u>	<u>\$ 21,124,574</u>	<u>\$ 21,938,008</u>
Liabilities:			
Current liabilities	\$ 3,720,756	\$ 1,385,822	\$ 1,439,432
Long-term debt	1,279,662	1,567,836	1,856,331
Net pension liability	<u>3,287,268</u>	<u>--</u>	<u>--</u>
Total liabilities	<u>8,287,686</u>	<u>2,953,658</u>	<u>3,295,763</u>
Deferred Inflows of Resources	1,587,936	292,000	291,000
Net Position:			
Invested in capital assets, net of related debt	8,613,832	9,545,524	8,612,283
Restricted expendable	200,051	200,048	200,000
Unrestricted	<u>5,101,395</u>	<u>8,133,344</u>	<u>9,538,962</u>
Total net position	<u>13,915,278</u>	<u>17,878,916</u>	<u>18,351,245</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 23,790,900</u>	<u>\$ 21,124,574</u>	<u>\$ 21,938,008</u>

The Hospital's total assets and deferred outflows of resources increased from \$21,124,574 in 2014 to \$23,790,900 in 2015 (12.6%). Capital assets decreased from \$11,407,731 in 2014 to \$10,181,668 in 2015 (10.7%). Designated and restricted assets decreased from \$5,805,548 in 2014 to \$5,612,357 in 2015 (3.3%) as the Hospital used funds to assist with operating expenses. Operating results increased in 2015 by \$11,257 from 2014.

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Management's Discussion and Analysis - Continued

The Government Accounting Standards Board (GASB) required a change in the method of accounting for the Hospital's pension costs during the 2014-15 year. The requirement resulted in significant changes to: net position (\$3,981,089 decrease), long-term liabilities (\$4,482,880 increase), and created a deferred outflow of resources (\$501,791) as of July 1, 2014. See Notes J and P for an explanation of the change. Although the Hospital's financial statement reporting has changed significantly, the requirement will have no effect on the Hospital's actual operations.

OPERATING RESULTS AND CHANGES IN THE HOSPITAL'S NET POSITION

In 2015, the Hospital's net position decreased by \$3,963,638 or 22.2 percent, as shown in Table 2. This decrease is made up of many different components. Total net position at the end of 2015 was \$13,915,278 and \$17,878,916 at year-end 2014.

Table 2: Operating Results and Changes in Net Position

	2015	Not Restated	
		2014	2013
Operating Revenues:			
Net patient service revenues	\$ 13,399,900	\$ 12,158,676	\$ 11,804,323
Other operating revenues	1,560,880	1,422,804	1,389,243
Total operating revenues	<u>14,960,780</u>	<u>13,581,480</u>	<u>13,193,566</u>
Operating Expenses:			
Salaries and benefits	8,276,408	7,410,746	6,998,476
Professional fees	1,786,493	1,631,169	1,735,274
Other operating expenses	3,768,886	3,745,014	3,270,726
Depreciation and amortization	1,496,704	1,173,519	1,151,204
Total operating expenses	<u>15,328,491</u>	<u>13,960,448</u>	<u>13,155,680</u>
Operating Income (Loss)	(367,711)	(378,968)	37,886
Non-Operating Revenues and Expenses:			
County taxes	303,886	299,723	300,204
Investment income	30,312	28,023	46,581
Non-capital grants and contributions	95,297	86,964	475,856
Other non-operating revenues and expenses, net	(72,808)	(78,071)	(95,542)
Total non-operating revenues, net	<u>356,687</u>	<u>336,639</u>	<u>727,099</u>
Excess of Revenues Over Expenses (Expenses Over Revenues) Before Capital Grants and Contributions and Change in Accounting Estimate	(11,024)	(42,329)	764,985
Capital Grants and Contributions	28,475	--	8,789
Change in Accounting Estimate	<u>--</u>	<u>(430,000)</u>	<u>--</u>
Increase (decrease) in net position	17,451	(472,329)	773,774
Net Position Beginning of Year - as Restated (Note P)	<u>13,897,827</u>	<u>18,351,245</u>	<u>17,577,471</u>
Net Position End of Year	<u>\$ 13,915,278</u>	<u>\$ 17,878,916</u>	<u>\$ 18,351,245</u>

HUMBOLDT COUNTY MEMORIAL HOSPITAL Management's Discussion and Analysis - Continued

OPERATING INCOME (LOSS)

The first component of the overall change in the Hospital's net position is its Operating Income or Loss - generally, the difference between Net Patient Service and Other Operating revenues and the expenses incurred to perform those services. In 2015, the Hospital reported an Operating Loss of (\$367,711) and an Operating Loss of (\$378,968) in 2014.

Operating revenues have shown an increase from 2014 to 2015. This increase was mainly due to an increase in skilled care and ancillary services.

Revenue increases were noted in nearly every department, most notably in Skilled Care (up \$152,070 / 48.8%), Emergency Services (up \$163,714 / 19.1%), Radiology (up \$355,473 / 16.5%), Pharmacy (up \$799,146 / 39.1%), and Physical Therapy (up \$310,042 / 31.1%).

As expected with the increase in revenue, contractual adjustments also increased \$1,867,163 (62.2%). This resulted in a \$1,241,224 (10.2%) increase in net patient service revenue.

The total cost of labor – wages and benefits – continues to be the largest component of the Hospital's expenses with general supplies being the second highest. Staff was added to accommodate the growth in the Nursing, Therapies and Ambulance Departments. The addition of employees and their families on the Hospital's self-funded health insurance along with higher acuity claims resulted in the increase of employee benefit expense.

Increase in labor costs of \$597,505 (10.3%)

Increase in employee benefits of \$268,157 (16.7%)

The rate of healthcare inflation has a direct effect on the cost of services provided by the Hospital. The Hospital continues to grow its technology in the area of clinical care, patient diagnostics and electronic health records. Investments in the facility and technology improve the efficiency of the Hospital and increase its ability to provide quality affordable healthcare locally.

The Hospital sometimes provides care for patients who have little or no health insurance or other means of payment. This service to the community is consistent with the goals established for the Hospital when it was established in 1970 when it was agreed that a portion of the Hospital's costs would be subsidized by property tax revenues, making the facility more affordable to the County's lower income residents. This is reflected in the Hospital's accounts written off as uncollectible. In 2015, \$261,922 in accounts was written off as uncollectible. This figure is an increase from \$237,482 in 2014. This reflects a 10.3% percent increase. This figure does not include the \$50,845 in approved Financial Assistance applications which has decreased with the expansion of Medicaid.

NON-OPERATING REVENUES AND EXPENSES

Non-operating revenues consist primarily of property taxes levied by the Hospital and income from investments. The Hospital has maintained its tax asking at approximately \$300,000 over the past three years. Non-capital grants and contributions increased by \$8,333 or 9.6% when compared to 2014. Investment income increased by \$2,289 or 8.2% as the investments held by the Hospital were reinvested at a higher interest rate. Hospital interest expense decreased \$11,283 from 2014. Overall, net non-operating revenues increased from \$336,639 to \$356,687 from 2014 to 2015.

HUMBOLDT COUNTY MEMORIAL HOSPITAL Management's Discussion and Analysis - Continued

THE HOSPITAL'S CASH FLOWS

Changes in the Hospital's cash flows are consistent with changes in operating profits and non-operating revenues and expenses. The net change in the Hospital's cash position was an increase of \$3,179,277 in 2015 from 2014.

BUDGETARY HIGHLIGHTS

Actual expenses were higher than the amended budget by \$251,299. Actual revenues were lower than budgeted by \$46,676.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets:

At the end of 2015, the Hospital had approximately \$10.2 million invested in capital assets, net of accumulated depreciation, as detailed in Note F to the financial statements. In 2015, the Hospital purchased new property and moveable equipment costing \$242,170. Of this, none was acquired through capital leases.

Debt:

At year-end 2015, the Hospital had a \$1,567,836 revenue note (bond) outstanding. See Note I to the financial statements.

OTHER ECONOMIC FACTORS

Physician recruitment and retention continues to be a goal for the Hospital.

The Hospital continues to deal with the rising cost of health insurance for the general population. This impacts the Hospital through higher deductibles, more coverage limitations and contracted discount requirements by insurance companies and an increasing number of uninsured individuals. The Hospital continues to see the impact of Medicaid expansion and the Accountable Care Act.

Employee retention is an important factor in the success of the Hospital. The need to provide competitive wages and benefits is important in retaining good employees and contributing to the growth of the Hospital.

The Hospital strives to provide state of the art technology and services. Electronic health records (EHR) will require more people time and costs to keep up with governmental requirements and patient needs. The Hospital also continues to invest in the current facility by completing many updates to its general appearance.

CONTACTING THE HOSPITAL'S FINANCIAL MANAGEMENT

This financial report is designed to provide our patients, suppliers, taxpayers, and creditors with a general overview of the Hospital's finances and to show the Hospital's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Hospital Chief Financial Officer, at Humboldt County Memorial Hospital, 1000 North 15th Street, Humboldt, Iowa 50548.

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Statements of Net Position
June 30,

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

	<u>2015</u>	<u>Not Restated 2014</u>
Current Assets:		
Cash	\$ 4,054,746	\$ 707,278
Patient receivables, less allowances for doubtful accounts and for contractual adjustments (\$409,000 in 2015, \$578,000 in 2014)	1,790,379	1,993,559
Other receivables	46,672	32,800
Inventory	158,521	155,469
Prepaid expense	226,218	178,405
Succeeding year property tax receivable	292,000	292,000
Designated and restricted assets	449,097	407,220
Total current assets	<u>7,017,633</u>	<u>3,766,731</u>
Designated and Restricted Assets:		
Internally designated assets	5,861,403	6,012,720
Restricted assets	200,051	200,048
	<u>6,061,454</u>	<u>6,212,768</u>
Less amounts required to meet current liabilities	449,097	407,220
	<u>5,612,357</u>	<u>5,805,548</u>
Capital Assets:		
Depreciable capital assets, net	10,131,399	11,359,237
Non-depreciable capital assets	50,269	48,494
	<u>10,181,668</u>	<u>11,407,731</u>
Other Assets:		
Note receivable	14,054	21,081
Other	95,012	123,483
	<u>109,066</u>	<u>144,564</u>
Total assets	22,920,724	21,124,574
Deferred Outflows of Resources:		
Pension related deferred outflows	870,176	--
Total assets and deferred outflows of resources	<u>\$ 23,790,900</u>	<u>\$ 21,124,574</u>

The accompanying notes are an integral part of these statements.

LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION

	<u>2015</u>	<u>Not Restated 2014</u>
Current Liabilities:		
Current maturities of long-term debt	\$ 288,174	\$ 288,496
Accounts payable	279,103	251,134
Accrued employee compensation	498,287	448,917
Payroll taxes withheld and accrued	148,505	98,139
Accrued interest payable	10,923	12,849
Senior housing deposits	83,720	82,455
Estimated third-party payor settlements	<u>2,412,044</u>	<u>203,832</u>
Total current liabilities	3,720,756	1,385,822
Long-Term Liabilities:		
Revenue note, less current maturities	1,279,662	1,567,836
Net pension liability	<u>3,287,268</u>	<u>--</u>
Total long-term liabilities	4,566,930	1,567,836
Total liabilities	8,287,686	2,953,658
Deferred Inflows of Resources:		
Deferred succeeding year property tax	292,000	292,000
Deferred pension cost	<u>1,295,936</u>	<u>--</u>
Total deferred inflows of resources	1,587,936	292,000
Net Position:		
Invested in capital assets, net of related debt	8,613,832	9,545,524
Restricted - expendable	200,051	200,048
Unrestricted	<u>5,101,395</u>	<u>8,133,344</u>
Total net position	13,915,278	17,878,916
 Total liabilities, deferred inflows of resources, and net position	 <u>\$ 23,790,900</u>	 <u>\$ 21,124,574</u>

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Statements of Revenues, Expenses and Changes in Net Position
Year ended June 30,

	<u>2015</u>	<u>Not Restated 2014</u>
Revenue:		
Net patient service revenue	\$ 13,399,900	\$ 12,158,676
Other revenue	<u>1,560,880</u>	<u>1,422,804</u>
Total revenue	14,960,780	13,581,480
Expenses:		
Nursing service	2,797,557	2,687,855
Other professional service	5,453,387	4,784,156
Senior housing	541,354	480,870
General service	1,531,973	1,506,050
Fiscal and administrative service	3,507,516	3,327,998
Provision for depreciation	1,468,233	1,146,376
Amortization	<u>28,471</u>	<u>27,143</u>
Total expenses	<u>15,328,491</u>	<u>13,960,448</u>
Operating Loss	(367,711)	(378,968)
Non-Operating Revenues (Expenses):		
County taxes	303,886	299,723
Noncapital grants and contributions	95,297	86,964
Investment income	30,312	28,023
Gain on disposal of equipment	--	6,020
Interest expense	<u>(72,808)</u>	<u>(84,091)</u>
Non-operating revenues, net	<u>356,687</u>	<u>336,639</u>
Excess of Expenses Over Revenues Before Capital Grants and Contributions and Change in Accounting Estimate	(11,024)	(42,329)
Capital Grants and Contributions	28,475	--
Change in Accounting Estimate (Note O)	<u>--</u>	<u>(430,000)</u>
Increase (Decrease) in Net Position	17,451	(472,329)
Net Position Beginning of Year - as Restated (Note P)	<u>13,897,827</u>	<u>18,351,245</u>
Net Position End of Year	<u>\$ 13,915,278</u>	<u>\$ 17,878,916</u>

The accompanying notes are an integral part of these statements.

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Statements of Cash Flows
Year ended June 30,

	<u>2015</u>	<u>Not Restated 2014</u>
Cash flows from operating activities:		
Cash received from patients and third-party payors	\$ 15,798,685	\$ 11,085,613
Cash paid to suppliers	(7,659,234)	(7,077,698)
Cash paid to employees	(6,350,872)	(5,749,685)
Other revenue	<u>1,560,880</u>	<u>1,422,804</u>
Net cash provided by (used in) operating activities	3,349,459	(318,966)
Cash flows from non-capital financing activities:		
County tax revenue	303,886	299,723
Noncapital grants and contributions	<u>95,297</u>	<u>86,964</u>
Net cash provided by non-capital financing activities	399,183	386,687
Cash flows from capital and related financing activities:		
Capital grants and contributions	28,475	--
Principal paid on long-term debt	(288,496)	(289,290)
Capital expenditures	(246,270)	(1,780,589)
Construction in progress expenditures	(1,775)	(4,781)
Proceeds from disposal of equipment	--	6,020
Interest paid	<u>(74,734)</u>	<u>(85,939)</u>
Net cash used in capital and related financing activities	(582,800)	(2,154,579)
Cash flows from investing activities:		
Investment income	30,312	28,023
Change in designated assets	<u>(16,877)</u>	<u>1,568,200</u>
Net cash provided by investing activities	<u>13,435</u>	<u>1,596,223</u>
Net increase (decrease) in cash and cash equivalents	3,179,277	(490,635)
Cash and cash equivalents beginning of year	<u>1,592,841</u>	<u>2,083,476</u>
Cash and cash equivalents end of year	<u>\$ 4,772,118</u>	<u>\$ 1,592,841</u>
Reconciliation of cash and cash equivalents to the statements of net position:		
Cash in current assets	\$ 4,054,746	\$ 707,278
Cash and cash equivalents in designated and restricted assets	<u>717,372</u>	<u>885,563</u>
	<u>\$ 4,772,118</u>	<u>\$ 1,592,841</u>

(continued next page)

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Statements of Cash Flows - continued
Year ended June 30,

	<u>2015</u>	<u>Not Restated 2014</u>
Reconciliation of operating loss to net cash provided by (used in) operating activities:		
Operating loss	\$(367,711)	\$(378,968)
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities		
Depreciation	1,468,233	1,146,376
Amortization	35,498	34,170
Salaries and wages capitalized	--	(4,957)
Change in accounting estimate	--	(430,000)
Change in assets and liabilities		
Accounts receivable	189,308	(556,453)
Inventory	(3,052)	19,618
Prepaid expense	(47,813)	(91,910)
Deferred outflows of resources	(368,385)	--
Accounts payable, trade	33,844	(45,693)
Accrued employee compensation	49,370	58,009
Payroll taxes withheld and accrued	50,366	17,452
Senior housing deposits	1,265	1,751
Estimated third-party payor settlements	2,208,212	(97,000)
Net pension liability	(1,195,612)	--
Deferred inflows of resources	1,295,936	8,639
Total adjustments	<u>3,717,170</u>	<u>60,002</u>
Net cash provided by (used in) operating activities	<u>\$ 3,349,459</u>	<u>\$(318,966)</u>

The accompanying notes are an integral part of these statements.

HUMBOLDT COUNTY MEMORIAL HOSPITAL FOUNDATION
Statements of Financial Position
June 30,

ASSETS

	<u>2015</u>	<u>2014</u>
Assets:		
Cash	\$ 380,812	\$ 162,496
Investments	3,064,806	2,972,332
Accrued interest receivable	<u>109</u>	<u>96</u>
Total assets	<u>\$ 3,445,727</u>	<u>\$ 3,134,924</u>

NET ASSETS

Net Assets:		
Restricted	\$ 32,951	\$ 29,255
Unrestricted	<u>3,412,776</u>	<u>3,105,669</u>
Total liabilities and net position	<u>\$ 3,445,727</u>	<u>\$ 3,134,924</u>

The accompanying notes are an integral part of these statements.

HUMBOLDT COUNTY MEMORIAL HOSPITAL FOUNDATION
Statements of Activities and Changes in Net Assets
Year ended June 30,

	<u>2015</u>	<u>2014</u>
Revenues and Other Support:		
Unrestricted contributions	\$ 215,392	\$ 75,848
Restricted contributions	8,104	4,688
Fundraising events (net of \$11,710 and \$16,588 direct expenses for 2015 and 2014 respectively)	15,915	6,650
Investment income	<u>93,480</u>	<u>388,353</u>
Total revenues and other support	332,891	475,539
Expenses:		
Operating assistance to the Hospital	20,338	35,787
Professional fees	<u>1,750</u>	<u>1,700</u>
Total expenses	<u>22,088</u>	<u>37,487</u>
Operating Income and Change in Net Assets	310,803	438,052
Net Assets Beginning of Year	<u>3,134,924</u>	<u>2,696,872</u>
Net Assets End of Year	<u>\$ 3,445,727</u>	<u>\$ 3,134,924</u>

The accompanying notes are an integral part of these statements.

HUMBOLDT COUNTY MEMORIAL HOSPITAL FOUNDATION
Statements of Cash Flows
Year ended June 30,

	<u>2015</u>	<u>2014</u>
Cash flows from operating activities:		
Cash received through contributions and fundraising	\$ 239,411	\$ 87,186
Cash paid to suppliers and Hospital	(22,088)	(37,487)
Investment income	<u>139,755</u>	<u>83,246</u>
Net cash provided by operating activities	<u>357,078</u>	<u>132,945</u>
Cash flows from investing activities:		
Change in investments	<u>(138,762)</u>	<u>(82,429)</u>
Net increase in cash and cash equivalents	218,316	50,516
Cash and cash equivalents beginning of year	<u>162,496</u>	<u>111,980</u>
Cash and cash equivalents end of year	<u>\$ 380,812</u>	<u>\$ 162,496</u>
Reconciliation of increase in net assets to net cash provided by operating activities:		
Increase in net assets	\$ 310,803	\$ 438,052
Adjustments to reconcile increase in net assets to net cash provided by operating activities		
Change in accrued interest receivable	(13)	30
Unrealized gains (losses) on investments	<u>46,288</u>	<u>(305,137)</u>
	<u>46,275</u>	<u>(305,107)</u>
Net cash provided by operating activities	<u>\$ 357,078</u>	<u>\$ 132,945</u>

The accompanying notes are an integral part of these statements.

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2015 and 2014

NOTE A - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES

1. Reporting Entity

The Organization includes a foundation and a critical access county hospital with related healthcare ancillary, outpatient, long-term care, and senior housing services. Humboldt County Memorial Hospital (Hospital) is organized under Chapter 347 of the Code of Iowa, accordingly is a political subdivision of the State of Iowa, and is therefore exempt from federal and state income taxes. It is governed by a seven member board of trustees elected for six year terms. The Hospital has considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the Hospital are such that exclusion would cause the Hospital's financial statements to be misleading or incomplete. The criteria for determining financial accountability include: appointing a majority of an organization's governing body, and (a) the Hospital's ability to impose its will on that organization, or (b) the potential for the organization to provide benefits to or impose financial burdens on the Hospital.

The Humboldt County Memorial Hospital Foundation (Foundation) has been identified as a legally separate component unit of the Hospital, and accordingly, the financial statements of the Foundation have been included as a discretely presented component unit on pages 8 through 10. The Foundation is a not-for-profit corporation exempt from income tax under Section 501 of the Internal Revenue Code. Substantially all of the economic resources of the Foundation are designated for the direct benefit of the Hospital.

Separate financial statements of the Hospital have been issued which do not include the discretely presented financial statements of the Foundation.

2. Basis of Presentation

The Statement of Net Position displays the Hospital's assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position in a balance sheet format. Net position is reported in three categories:

Net investment in capital assets consists of capital assets, net of accumulated depreciation/amortization and reduced by outstanding balances for bonds, notes and other debt attributable to the acquisition, construction or improvement of those assets.

Restricted net position:

- a. *Nonexpendable* - Nonexpendable net position is subject to externally imposed stipulations which require them to be maintained permanently by the Hospital.
- b. *Expendable* - Expendable net position results when constraints placed on net position use are either externally imposed or are imposed by law through constitutional provisions or enabling legislation. Enabling legislation did not result in any restricted net position.

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2015 and 2014

NOTE A - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES - Continued

Unrestricted net position consists of net position not meeting the definition of the preceding categories. Unrestricted net position is often subject to constraints imposed by management which can be removed or modified.

When both restricted and unrestricted net position is available for use, generally it is the Hospital's policy to use restricted net position first.

3. Measurement Focus and Basis of Accounting

Measurement focus refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The accompanying basic financial statements have been prepared on the accrual basis of accounting in conformity with U.S. generally accepted accounting principles. Revenues are recognized when earned and expenses are recorded when the liability is incurred.

4. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

5. Cash and Cash Equivalents

Cash and cash equivalents include investments in highly liquid debt instruments with an original maturity of three months or less, including designated and restricted assets.

6. Accounts Receivable

Accounts receivable are shown at the amount expected to be collected after determining the allowance for doubtful accounts based on an aging of all the individual patient balances.

7. Inventory Valuation

Inventory is valued at the lower of cost (first-in, first-out method) or market.

8. Investments

Investments are reported at fair value except for short-term highly liquid investments that have a remaining maturity at the time they are purchased of one year or less. These investments are carried at amortized cost. Interest, dividends, and gains and losses, both realized and unrealized, on investments are included in non-operating revenue (operating revenue for the Foundation) when earned, unless restricted by donor or law.

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2015 and 2014

NOTE A - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES - Continued

9. Designated and Restricted Assets

Internally designated assets consist primarily of funds designated by the Board of Trustees for capital acquisitions. The Board retains control over these funds, and may, at its discretion, subsequently use them for other purposes. Restricted assets include donor restricted gifts, and funds whose use is limited by law or contractual agreements.

10. Capital Assets

The Hospital's capital assets are reported at historical cost. Contributed capital assets are reported at their estimated fair value at the time of their donation. Capital assets with lives in excess of three years and cost in excess of \$5,000 are capitalized. These capital assets, other than land, are depreciated or amortized (in the case of capital leases) using the straight-line method of depreciation using their estimated useful lives (fifteen to forty years for buildings and land improvements and three to twenty years for equipment).

11. Costs of Borrowing

Except for capital assets acquired through gifts, contributions, or capital grants, interest cost on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. The Hospital did not capitalize any interest costs in 2015 or 2014.

12. Deferred Outflows of Resources

Deferred outflows of resources represent a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expense) until then. Deferred outflows of resources consist of unrecognized items not yet charged to pension expense and contributions from the employer after the measurement date but before the end of the employer's reporting period.

13. Property Tax Levy

Property tax receivable is recognized on the levy or lien date, which is the date that the tax asking is certified by the County Board of Supervisors. The succeeding year property tax receivable represents taxes certified by the Board of Supervisors to be collected in the next fiscal year for the purposes set out in the budget for that year. The succeeding year property tax receivable has been recorded as a current asset and the related property tax revenue has been recorded as a deferred inflow of resources. Property tax revenue is reported as non-operating revenue when collected by the County Treasurer.

14. Compensated Absences

Hospital policies permit most employees to accumulate vacation, holiday, and sick time benefits that may be realized as paid time off. Expense and the related liability are recognized as benefits are earned. Compensation absence liabilities are computed using the regular pay and termination pay rates in effect at the balance sheet date plus an additional amount for compensation-related payments such as social security and Medicare taxes computed using rates in effect at that date.

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2015 and 2014

NOTE A - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES - Continued

15. Deferred Inflows of Resources

Deferred inflows of resources represent an acquisition of net position that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time. Deferred inflows of resources in the Statement of Net Position consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied and the unamortized portion of the net difference between projected and actual earnings on pension plan investments.

16. Statement of Revenues, Expenses and Changes in Net Position

For purposes of display, transactions deemed by management to be ongoing, major or central to the provision of health care services are reported as operating revenues and expenses. Property tax levied to finance the current year is included as non-operating revenues and peripheral or incidental transactions are reported as non-operating revenues and expenses.

17. Net Patient Service Revenue

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. Payment arrangements include prospectively determined rates, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

18. Grants and Contributions

Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as non-operating revenues. Amounts restricted to capital acquisitions are reported after non-operating revenues and expenses.

19. Charity Care

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Revenue from services to these patients is automatically recorded in the accounting system at the established rates, but the Hospital does not pursue collection of the amounts. The resulting adjustments are recorded as bad debts or charity service depending on the timing of the charity determination.

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2015 and 2014

NOTE B - THIRD-PARTY PAYOR ARRANGEMENTS

A summary of the payment arrangements with major third-party payors follows:

Medicare and Medicaid - Inpatient services and most outpatient services related to program beneficiaries are paid based on a cost reimbursement methodology. The Hospital is reimbursed for the cost of services at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the fiscal intermediaries. The Hospital's Medicare cost reports have been audited and finalized by the fiscal intermediary through June 30, 2013. The Hospital's Medicaid cost reports have been finalized by the fiscal intermediary through June 30, 2012. However, finalized cost reports are subject to re-opening by the intermediaries within three years after the date of finalization (See Note O). Outpatient services not paid based on a cost reimbursement methodology are paid based on a prospectively determined fee schedule.

The Hospital also has entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to the Hospital under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

NOTE C - RESTRICTED NET POSITION

Restricted expendable assets are available for the following purposes:

<u>Hospital</u>	<u>2015</u>	<u>2014</u>
Long-term debt	\$ 200,051	\$ 200,048
<u>Foundation</u>		
Hospice	\$ 891	\$ 891
Assisted Living	31	641
Long Term Care	2,523	1,423
Dietary	1,786	--
Ambulance and Defibrillator	930	930
Emergency Room	12,432	12,432
Radiology	6,325	2,429
Public Health	150	150
Wellness	151	151
Genevieve's Place	150	150
Rehab Services	2,385	4,390
Employee Fundraisers	99	999
REACH Program	2,495	2,066
Cardiac Rehab	603	603
Surgery	2,000	2,000
	<u>\$ 32,951</u>	<u>\$ 29,255</u>

The Hospital and Foundation have no restricted nonexpendable assets or endowments at June 30, 2015 or 2014.

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2015 and 2014

NOTE C - RESTRICTED NET POSITION - Continued

Following is a summary of the use of temporarily restricted assets during the year ended June 30:

<u>Hospital</u>	<u>2015</u>	<u>2014</u>
Purchase of property and equipment	\$ <u>28,475</u>	\$ <u>--</u>
<u>Foundation</u>		
Assisted Living	\$ 785	\$ 276
Dietary	214	--
Radiology	481	--
Patient through nursing	11,538	--
Genevieve's Place	--	1,750
Rehab	2,005	10,476
Ambulance and Defibrillator	1,000	--
Employee fundraisers	900	1,150
Reach	<u>3,400</u>	<u>2,100</u>
	\$ <u>20,323</u>	\$ <u>15,752</u>

NOTE D - DESIGNATED ASSETS - FOUNDATION

Of the \$3,412,776 (\$3,105,669 as of June 30, 2014) of unrestricted net assets as of June 30, 2015, \$2,980,541 (\$2,887,978 for 2014) has been designated by the Foundation's Board to establish an endowment fund to generate income to further the Foundation's mission. These funds remain under the control of the Foundation Board, which may, at its discretion, later use the funds for other purposes. These funds are summarized as follows:

	<u>2015</u>	<u>2014</u>
Cash	\$ 34,337	\$ 34,040
Certificates of deposit	99,690	99,690
Equity securities	<u>2,846,514</u>	<u>2,754,248</u>
	\$ <u>2,980,541</u>	\$ <u>2,887,978</u>

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2015 and 2014

NOTE E - DEPOSITS AND INVESTMENTS

The Hospital's deposits at June 30, 2015 were entirely covered by federal depository insurance or the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to ensure there will be no loss of public funds. See Note N regarding the Foundation's deposits. Investments are stated as indicated in Note A.

The Hospital is authorized by statute to invest public funds in obligations of the United States Government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Trustees; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; common stocks; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The composition of designated and restricted assets is as follows:

<u>Hospital</u>	<u>2015</u>	<u>2014</u>
Internally Designated Assets:		
Capital acquisitions:		
Certificates of deposit	\$ 5,141,005	\$ 5,124,472
Interest receivable	3,026	2,685
Employee health insurance:		
Cash	717,372	885,563
	<u>\$ 5,861,403</u>	<u>\$ 6,012,720</u>
Restricted Assets:		
Certificates of deposit	\$ 200,000	\$ 200,000
Interest receivable	51	48
	<u>\$ 200,051</u>	<u>\$ 200,048</u>
<u>Foundation</u>		
Investments:		
Certificates of deposit	\$ 204,188	\$ 204,188
Equity securities	2,860,618	2,768,144
	<u>\$ 3,064,806</u>	<u>\$ 2,972,332</u>
Restricted Assets:		
Cash	<u>\$ 32,951</u>	<u>\$ 29,255</u>

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2015 and 2014

NOTE E - DEPOSITS AND INVESTMENTS - Continued

Investment income for designated and restricted assets, cash equivalents, and other investments is comprised of the following for the year ended June 30:

<u>Hospital</u>	<u>2015</u>	<u>2014</u>
Interest income	\$ <u>30,312</u>	\$ <u>28,023</u>
<u>Foundation</u>		
Interest income	\$ 882	\$ 662
Dividend income	138,886	82,554
Unrealized gains (losses) on investments	<u>(46,288)</u>	<u>305,137</u>
	\$ <u>93,480</u>	\$ <u>388,353</u>

Interest Rate Risk - The Hospital's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the Hospital.

NOTE F - FAIR VALUE MEASUREMENTS

The Hospital's and Foundation's investments are reported at fair value in the accompanying balance sheets. The methods used to measure fair value may produce an amount that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although management believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The fair value measurement accounting literature establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority, and Level 3 inputs are unobservable and have the lowest priority. The Hospital and Foundation use appropriate valuation techniques based on the available inputs to measure the fair value of its investments. When available, the Hospital and Foundation measure fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. Level 1 inputs were available for all investments at June 30, 2015 and 2014.

Level 1 Fair Value Measurements

The fair value of equity securities is based on quoted net asset values of the shares held by the Foundation at year-end. Level 1 fair values for equity securities using quoted prices on active markets for identical assets were \$2,860,618 at June 30, 2015 (\$2,768,144 at June 30, 2014).

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2015 and 2014

NOTE G - ACCOUNTS RECEIVABLE AND CONCENTRATION OF CREDIT RISK

The Hospital grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors at June 30, 2015 and 2014, was as follows:

	<u>2015</u>	<u>2014</u>
Receivable from:		
Patients	\$ 541,435	\$ 569,811
Medicare	838,607	1,035,553
Medicaid	177,726	160,006
Wellmark	314,550	312,046
Other commercial insurance carriers	318,605	486,031
Others	<u>8,456</u>	<u>8,112</u>
	2,199,379	2,571,559
Less allowances for doubtful accounts and contractual adjustments	<u>409,000</u>	<u>578,000</u>
	<u>\$ 1,790,379</u>	<u>\$ 1,993,559</u>

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2015 and 2014

NOTE H - CAPITAL ASSETS

Capital assets, additions, disposals and balances for the years ended June 30, 2015 and 2014 were as follows:

<u>Cost</u>	<u>Balance 2014</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 2015</u>
Land Improvements	\$ 247,291	\$ 8,273	\$ --	\$ 255,564
Buildings and Fixed				
Equipment	12,123,793	34,657	--	12,158,450
Major Movable Equipment	6,098,361	153,780	--	6,252,141
Senior Housing Assets	<u>5,145,883</u>	<u>43,685</u>	<u>--</u>	<u>5,189,568</u>
	23,615,328	240,395	--	23,855,723
<u>Depreciation</u>				
Land Improvements	130,622	12,542	--	143,164
Buildings and Fixed				
Equipment	5,745,691	471,506	--	6,217,197
Major Movable Equipment	3,592,417	745,059	--	4,337,476
Senior Housing Assets	<u>2,787,361</u>	<u>239,126</u>	<u>--</u>	<u>3,026,487</u>
Total Depreciation	<u>12,256,091</u>	<u>1,468,233</u>	<u>--</u>	<u>13,724,324</u>
Total Depreciable Capital Assets, Net	<u>\$ 11,359,237</u>	<u>\$(1,227,838)</u>	<u>\$ --</u>	<u>\$ 10,131,399</u>
Construction in Progress	\$ --	\$ 1,775	\$ --	\$ 1,775
Land	<u>48,494</u>	<u>--</u>	<u>--</u>	<u>48,494</u>
Total Non-Depreciable Capital Assets	<u>\$ 48,494</u>	<u>\$ 1,775</u>	<u>\$ --</u>	<u>\$ 50,269</u>

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2015 and 2014

NOTE H - CAPITAL ASSETS - Continued

<u>Cost</u>	<u>Balance 2013</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 2014</u>
Land Improvements	\$ 226,757	\$ 20,534	\$ --	\$ 247,291
Buildings and Fixed Equipment	12,067,715	56,078	--	12,123,793
Major Movable Equipment	4,217,431	1,880,930	--	6,098,361
Senior Housing Assets	<u>5,145,883</u>	<u>--</u>	<u>--</u>	<u>5,145,883</u>
	21,657,786	1,957,542	--	23,615,328
<u>Depreciation</u>				
Land Improvements	119,088	11,534	--	130,622
Buildings and Fixed Equipment	5,274,944	470,747	--	5,745,691
Major Movable Equipment	3,172,964	419,453	--	3,592,417
Senior Housing Assets	<u>2,542,719</u>	<u>244,642</u>	<u>--</u>	<u>2,787,361</u>
Total Depreciation	<u>11,109,715</u>	<u>1,146,376</u>	<u>--</u>	<u>12,256,091</u>
Total Depreciable Capital Assets, Net	<u>\$ 10,548,071</u>	<u>\$ 811,166</u>	<u>\$ --</u>	<u>\$ 11,359,237</u>
Construction in Progress	\$ 161,340	\$ 9,738	\$ 171,078	\$ --
Land	<u>48,494</u>	<u>--</u>	<u>--</u>	<u>48,494</u>
Total Non-Depreciable Capital Assets	<u>\$ 209,834</u>	<u>\$ 9,738</u>	<u>\$ 171,078</u>	<u>\$ 48,494</u>

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2015 and 2014

NOTE I - NON-CURRENT LIABILITIES

A schedule of changes in the Hospital's non-current liabilities for the years ended June 30, 2015 and 2014 follows:

	<u>Balance 2014</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 2015</u>	<u>Current Portion</u>
Long-Term Liabilities:					
Rural Economic					
Development Loan	\$ 12,000	\$ --	\$ 12,000	\$ --	\$ --
Series 2008 Revenue					
Note	1,844,332	--	276,496	1,567,836	288,174
Net Pension Liability	<u>--</u>	<u>3,287,268</u>	<u>--</u>	<u>3,287,268</u>	<u>--</u>
Total Long-Term Liabilities	<u>\$1,856,332</u>	<u>\$3,287,268</u>	<u>\$ 288,496</u>	<u>\$4,855,104</u>	<u>\$ 288,174</u>
	<u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u>	<u>Current</u>
	<u>2013</u>			<u>2014</u>	<u>Portion</u>
Long-Term Liabilities:					
Rural Economic					
Development Loan	\$ 36,000	\$ --	\$ 24,000	\$ 12,000	\$ 12,000
Series 2008 Revenue					
Note	<u>2,109,622</u>	<u>--</u>	<u>265,290</u>	<u>1,844,332</u>	<u>276,496</u>
Total Long-Term Liabilities	<u>\$2,145,622</u>	<u>\$ --</u>	<u>\$ 289,290</u>	<u>\$1,856,332</u>	<u>\$ 288,496</u>

In December, 2004, the Hospital borrowed \$240,000 through the Humboldt County Rural Electric Cooperative under the Rural Economic Development Loan and Grant Program. The loan was non-interest bearing, was payable in forty equal quarterly installments, and was paid off during the year ended June 30, 2015. The loan was collateralized by the Hospital's net revenues generated by the senior housing assisted living facility.

The Series 2008 Hospital Revenue Note was issued in May, 2008 and is collateralized by the Hospital's net revenues. The note was issued for the purpose of refunding the Series 2000 and Series 2001 revenue bonds. The note matures in semi-annual payments of \$175,365, including interest at 4.18% per annum, through May, 2020.

The combined annual debt service on the loan and note is expected to require less than 25% of cash flow available for debt service. For the current year, debt service and cash flow available for debt service were approximately \$363,000 and \$1,587,000 respectively.

Under the terms of the revenue note indentures, the Hospital is required to maintain certain deposits with a bank. Such deposits are included with restricted assets in the financial statements. The indentures also place limits on the incurrence of additional borrowings and require that the Hospital satisfy certain measures of financial performance as long as the note is outstanding.

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2015 and 2014

NOTE I - NON-CURRENT LIABILITIES - Continued

Scheduled principal and interest repayments on long-term debt are as follows:

Year Ending June 30,	Long-Term Debt		
	Principal	Interest	Total
2016	\$ 288,174	\$ 62,556	\$ 350,730
2017	300,345	50,385	350,730
2018	313,031	37,699	350,730
2019	326,253	24,477	350,730
2020	340,033	10,697	350,730
	<u>\$ 1,567,836</u>	<u>\$ 185,814</u>	<u>\$ 1,753,650</u>

The pension liability, as further described in Note H, represents an actuarial estimate of the Hospital's share of the Iowa Public Employee Retirement System (IPERS) unfunded pension liability.

NOTE J - PENSION PLAN

Plan Description - IPERS membership is mandatory for employees of the Hospital, except for those covered by another retirement system. Employees of the Hospital are provided with pensions through a cost-sharing multiple employer defined benefit pension plan administered by Iowa Public Employees' Retirement System (IPERS). IPERS issues a stand-alone financial report which is available to the public by mail at 7401 Register Drive, P.O. Box 9117, Des Moines, Iowa 50306-9117 or at www.ipers.org.

IPERS benefits are established under Iowa Code chapter 97B and the administrative rules thereunder. Chapter 97B and the administrative rules are the official plan documents. The following brief description is provided by general informational purposes only. Refer to the plan documents for more information.

Pension Benefits - A regular member may retire at normal retirement age and receive monthly benefits without an early-retirement reduction. Normal retirement age is age 65, any time after reaching age 62 with 20 or more years of covered employment, or when the member's years of service plus the member's age at the last birthday equals or exceeds 88, whichever comes first. (These qualifications must be met on the member's first month of entitlement to benefits.) Members cannot begin receiving retirement benefits before age 55. The formula used to calculate a Regular member's monthly IPERS benefit includes:

- A multiplier (based on years of service).
- The member's highest five-year average salary. (For members with service before June 30, 2012, the highest three-year average salary as of that date will be used if it is greater than the highest five-year average salary.)

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2015 and 2014

NOTE J - PENSION PLAN - Continued

If a member retires before normal retirement age, the member's monthly retirement benefit will be permanently reduced by an early-retirement reduction. The early-retirement reduction is calculated differently for service earned before and after July 1, 2012. For service earned before July 1, 2012, the reduction is 0.25% for each month that the member receives benefits before the member's earliest normal retirement age. For service earned starting July 1, 2012, the reduction is 0.50% for each month that the member receives benefits before age 65.

Generally, once a member selects a benefit option, a monthly benefit is calculated and remains the same for the rest of the member's lifetime. However, to combat the effects of inflation, retirees who began receiving benefits prior to July 1990 receive a guaranteed dividend with their regular November benefit payments.

Disability and Death Benefits - A vested member who is awarded federal Social Security disability or Railroad Retirement disability benefits is eligible to claim IPERS benefits regardless of age. Disability benefits are not reduced for early retirement. If a member dies before retirement, the member's beneficiary will receive a lifetime annuity or a lump-sum payment equal to the present actuarial value of the member's accrued benefit or calculated with a set formula, whichever is greater. When a member dies after retirement, death benefits depend on the benefit option the member selected at retirement.

Contributions - Effective July 1, 2012, as a result of a 2010 law change, the contribution rates are established by IPERS following the annual actuarial valuation, which applies IPERS' Contribution Rate Funding Policy and Actuarial Amortization Method. Statute limits the amount rates can increase or decrease each year to 1 percentage point. IPERS Contribution Rate Funding Policy requires that the actuarial contribution rate be determined using the "entry age normal" actuarial cost method and the actuarial assumptions and methods approved by the IPERS Investment Board. The actuarial contribution rate covers normal cost plus the unfunded actuarial liability payment based on a 30-year amortization period. The payment to amortize the unfunded actuarial liability is determined as a level percentage of payroll, based on the Actuarial Amortization Method adopted by the Investment Board.

In fiscal year 2015, pursuant to the required rate, Regular members contributed 5.95% of pay and the Hospital contributed 8.93% for a total rate of 14.88%.

The Hospital's contributions to IPERS for the year ended June 30, 2015 were \$551,719.

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2015 and 2014

NOTE J - PENSION PLAN - Continued

Net Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - At June 30, 2015, the Hospital reported a liability of \$3,287,268 for its proportionate share of the net pension liability. The Hospital net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Hospital's proportion of the net pension liability was based on the Hospital's share of contributions to the pension plan relative to the contributions of all IPERS participating employers. At June 30, 2014, the Hospital's proportion was 0.080580%, which was an increase of 0.001838% from its proportion measured as of June 30, 2013. For the year ended June 30, 2015, the Hospital recognized pension expense of \$283,658. At June 30, 2015, the Hospital reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 33,271	\$ --
Changes of assumptions	146,375	--
Net difference between projected and actual earnings on pension plan investments	--	1,295,936
Changes in proportion and differences between Hospital contributions and proportionate share of contributions	138,811	--
Hospital contributions subsequent to the measurement date	<u>551,719</u>	<u>--</u>
	<u>\$ 870,176</u>	<u>\$ 1,295,936</u>

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2015 and 2014

NOTE J - PENSION PLAN - Continued

The \$551,719, reported as deferred outflows of resources related to pensions resulting from the Hospital contributions subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended June 30,</u>	
2016	\$(249,695)
2017	(249,695)
2018	(249,695)
2019	(249,695)
2020	<u>21,301</u>
	<u><u>\$(977,479)</u></u>

There were no non-employer contribution entities at IPERS.

Actuarial Assumptions - The total pension liability in the June 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Rate of Inflation (effective June 30, 2014)	3.00%
Salary increases (effective June 30, 2014)	4.00%, average, including inflation
Investment rate of return (effective June 30, 1996)	7.50% per annum, compounded annually, net of pension plan investment expense, including inflation

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of actuarial experience studies with dates corresponding to those listed above.

Mortality rates were based on the RP-2000 Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA.

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2015 and 2014

NOTE J - PENSION PLAN - Continued

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
US Equity	23%	6.31
Non US Equity	15	6.76
Private Equity	13	11.34
Real Estate	8	3.52
Core Plus Fixed Income	28	2.06
Credit Opportunities	5	3.67
TIPS	5	1.92
Other Real Assets	2	6.27
Cash	1	(0.69)
Total	<u>100%</u>	

Discount Rate - The discount rate used to measure the total pension liability was 7.5%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the contractually required rate and that contributions from the Hospital will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Hospital's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following presents the Hospital's proportionate share of the net pension liability calculated using the discount rate of 7.5%, as well as what the Hospital's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5%) or 1-percentage-point higher (8.5%) than the current rate.

	<u>1% Decrease (6.5%)</u>	<u>Discount Rate (7.5%)</u>	<u>1% Increase (8.5%)</u>
Hospital's proportionate share of the net pension liability	<u>\$ 6,302,445</u>	<u>\$ 3,287,268</u>	<u>\$ 742,239</u>

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2015 and 2014

NOTE J - PENSION PLAN - Continued

Pension Plan Fiduciary Net Position - Detailed information about the pension plan's fiduciary net position is available in the separately issued IPERS financial report which is available on IPERS' website at www.ipers.org.

Payables to the Pension Plan - At June 30, 2015, the Hospital reported payables to the defined benefit pension plan of \$55,332 for legally required employer contributions and \$28,359 for legally required employee contributions which had been withheld from employee wages but not yet remitted to IPERS.

NOTE K - DEFERRED COMPENSATION PLAN

The Hospital sponsors a deferred compensation plan which is administered by an independent contractor under Internal Revenue Code Section 457. The plan permits employees to defer a portion of their salary until future years. The Hospital's accounting and personnel departments are responsible for the accounting, reconciliations and record keeping associated with employees' enrollment, payments to the plan through payroll deductions, and timely transfer of withheld funds to the trustee designated by the participant for investment. The plan is designed so that each participant retains investment control of his/her individual account. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

The Hospital's fiduciary responsibility is limited to due care in selecting the plan administrator. The administrator is responsible for withholdings and W-2s when the participants receive payments. The administrator is also required to submit an annual report to the Hospital. The Hospital is liable to a participant only for income lost because of its failure to send payment of a deferred amount as directed by the participant.

The market value of the exclusive benefit plan assets at June 30, 2015 was approximately \$216,000 (\$191,000 at June 30, 2014). This amount is not included in the financial statements since the Hospital does not own or hold in a trustee capacity the amounts deferred by employees and related income on those amounts.

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2015 and 2014

NOTE L - AFFILIATED ORGANIZATIONS

The Hospital has an operating agreement with Trinity Health Systems (Trinity). Under the agreement, the Hospital's Chief Executive Officer is an employee of Trinity and the Hospital reimburses Trinity for the cost of the Chief Executive Officer's salary and benefits. The Hospital also pays a monthly fee to Trinity for management services. Under the agreement, Trinity exercises joint authority over the Hospital's operations with the Hospital's board. Trinity consults and works with the Hospital's board in formulating management strategies and recommendations regarding operations. Below is a list of transactions between the Hospital and this affiliate for the years ended June 30, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Fees to Trinity for personnel and services	\$ 203,153	\$ 272,620

Humboldt County Memorial Hospital Foundation (the Foundation)

As indicated in Note A1, the Foundation has been identified as a component unit of the Hospital. The Hospital received \$10,168 and \$ - 0 - from the Foundation during the years ended June 30, 2015 and 2014, respectively, for the purchase of property and equipment. The Hospital received \$10,170 and \$35,787 from the Foundation during the years ended June 30, 2015 and 2014, respectively, for operating assistance. As of June 30, 2015, the Foundation has no material pledges receivable related to Hospital projects.

NOTE M - OTHER POST EMPLOYMENT BENEFITS (OPEB)

Plan Description: As required by state law, the Hospital offers health insurance to former employees who have retired after age 55, but have not reached Medicare eligibility. The fully insured plan is a part of the plan offered to all Hospital employees, and the retirees must pay the full cost of the health insurance premium equal to that charged for current employees. There are approximately 130 active employees and 1 retiree currently covered by the plan.

Funding Policy: The Hospital does not set aside funds to pay for any OPEB liability. Any Hospital costs of an implicit health insurance premium rate subsidy are charged to expense in the year paid.

Net OPEB Obligation: Management of the Hospital considers any OPEB obligation, which may exist, to be immaterial. Therefore the Hospital has elected to not obtain an actuarial evaluation of the OPEB liability.

Generally accepted accounting principles, established under GASB Statement No. 45, require that an actuarial or alternative computation of a liability be completed. The independent auditor's report regarding the financial statements has been qualified as a result of not obtaining the required evaluation and not recording any potential material OPEB liability.

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2015 and 2014

NOTE N - COMMITMENTS AND CONTINGENCIES

Risk Management

The Hospital is insured by a claims-made policy for protection against liability claims resulting from professional services provided or which should have been provided. Management believes that the malpractice insurance coverage is adequate to cover all asserted and any unasserted claims, therefore no related liability has been accrued. Humboldt County Memorial Hospital is exposed to various other common business risks for which it is covered by commercial insurance. Settled claims from these risks have not exceeded insurance coverage during the past three fiscal years.

Self-Funded Health Insurance

The Hospital has established an employee health insurance fund. Under the self-insured plan, the Hospital pays claims from this fund up to maximum limits and carries stop loss insurance for claims in excess of the limits. At June 30, 2015, the Hospital has designated funds in excess of actual claims paid of \$717,372 (\$885,563 at June 30, 2014). This amount of funds, shown under internally designated assets, would be made available should they be needed to pay claims in the future. The estimated amount of unpaid claims at June 30, 2015 is \$150,000 (\$100,000 at June 30, 2014) and is included in accounts payable.

Note Receivable

The note receivable represents funds advanced under an agreement with a healthcare professional practicing in the community. The agreement includes commitments by the healthcare professional to provide medical services in the community for a specified period of years. In exchange for the commitments of time and services, the Hospital will forgive the note over the term of the commitments.

Construction in Progress

The \$1,775 in construction in progress at June 30, 2015 is related to various small projects for which no material commitments exist as of the date of this report.

Off-Balance Sheet Risk

The Foundation maintains its deposits at a local bank. At various times throughout the year and at year end, the deposits in the bank exceeded the FDIC insured deposits limit for one entity (by approximately \$332,250 at year end). Management of the Foundation has received no indication of any potential viability problems with the bank by the date of this report.

The Foundation maintains approximately \$2,861,000 of its investment portfolio in various mutual funds, none of which are covered by any form of insurance against loss.

Subsequent Events

The Hospital has evaluated all subsequent events through October 30, 2015, the date the financial statements were available to be issued.

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2015 and 2014

NOTE O - CHANGE IN ACCOUNTING ESTIMATE

During fiscal year 2014, the Medicare fiscal intermediary reopened home office and other cost reports from 2010 through 2013. The Hospital revised its estimate of potential liabilities owed to third party payors as a result of these reopenings. The result of that change in estimate (\$430,000) has been reported as a separate item, below the excess of revenues over expenses (expenses over revenues), on the statement of revenues, expenses and changes in net position.

NOTE P - ACCOUNTING CHANGE/RESTATEMENT

Governmental Accounting Standards Board Statement No. 68, Accounting and Financial Reporting for Pensions - an Amendment of GASB No. 27 was implemented during fiscal year 2015. The revised requirements establish new financial reporting requirements for state and local governments which provide their employees with pension benefits, including additional note disclosures and required supplementary information. In addition, GASB No. 68 requires a state or local government employer to recognize a net pension liability and changes in the net pension liability, deferred outflows of resources and deferred inflows of resources which arise from other types of events related to pensions. During the transition year, as permitted beginning balances for deferred outflows of resources and deferred inflows of resources will not be reported, except for deferred outflows of resources related to contributions made after the measurement date of the beginning net pension liability which is required to be reported by Governmental Accounting Standards Board Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date. Beginning net position was restated to retroactively report the beginning net pension liability and deferred outflows of resources related to contributions made after the measurement date, as follows:

	<u>Net Position</u>
Net position June 30, 2014, as previously reported	\$ 17,878,916
Net pension liability at June 30, 2014	(4,482,880)
Deferred outflows of resources related to contributions made after the June 30, 2013 measurement date	<u>501,791</u>
Net position July 1, 2014, as restated	<u>\$ 13,897,827</u>

* * *

REQUIRED SUPPLEMENTARY INFORMATION

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Budgetary Comparison Schedule
Year Ended June 30, 2015

This budgetary comparison is presented as Required Supplementary Information in accordance with Government Auditing Standards. In accordance with the Code of Iowa, the Board of Trustees annually adopts a budget following required public notice and hearings. The annual budget may be amended during the year utilizing similar statutorily-prescribed procedures. The following is a reconciliation between reported amounts and the accrual basis used to prepare the budget. The adjustments result from accounting for interest, and net position differently for financial statement and budget purposes. For the year ended June 30, 2015, the Hospital's expenditures exceeded the amount budgeted.

	Per Financial Statements			
	Unrestricted Fund	Restricted Fund	Total	
Amount raised by taxation	\$ 303,886	\$ --	\$ 303,886	
Other revenues	<u>15,042,053</u> 15,345,939	<u>3</u> 3	<u>15,042,056</u> 15,345,942	
Expenses	<u>15,328,491</u>	<u>--</u>	<u>15,328,491</u>	
Net	17,448	3	17,451	
Balance beginning of year	<u>13,697,779</u>	<u>200,048</u>	<u>13,897,827</u>	
Balance end of year	<u>\$ 13,715,227</u>	<u>\$ 200,051</u>	<u>\$ 13,915,278</u>	
	Total Per Financial Statements	Budget Adjustments	Budget Basis	Amended Budget
Amount raised by taxation	\$ 303,886	\$ --	\$ 303,886	\$ 291,678
Other revenues	<u>15,042,056</u> 15,345,942	<u>72,808</u> 72,808	<u>15,114,864</u> 15,418,750	<u>15,173,748</u> 15,465,426
Expenses	<u>15,328,491</u>	<u>72,808</u>	<u>15,401,299</u>	<u>15,150,000</u>
Net	17,451	--	17,451	315,426
Balance beginning of year	<u>13,897,827</u>	<u>4,361,163</u>	<u>18,258,990</u>	<u>18,258,990</u>
Balance end of year	<u>\$ 13,915,278</u>	<u>\$ 4,361,163</u>	<u>\$ 18,276,441</u>	<u>\$ 18,574,416</u>

See Independent Auditor's Report.

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Schedule of the Hospital's Proportionate Share of the Net IPERS Pension Liability
June 30, 2015

	<u>Required Information</u>
Hospital's proportion of the net pension liability	0.080580%
Hospital's proportionate share of the net pension liability	\$ 3,287,000
Hospital's covered-employee payroll	\$ 5,602,000
Hospital's proportionate share of the net pension liability as a percentage of its covered-employee payroll	58.68%
Plan fiduciary net position as a percentage of the total pension liability	87.61%

Note - GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full 10-year trend is compiled, the Hospital will present information for those years for which information is available. The amounts presented are from the previous IPERS June 30 fiscal year. Amounts reported are rounded.

See accompanying independent auditor's report.

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Schedule of Hospital IPERS Pension Contributions
Year Ended June 30,

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Statutorily required contribution	\$ 552,000	\$ 502,000	\$ 454,000	\$ 390,000
Contributions in relation to the statutorily required contribution	<u>(552,000)</u>	<u>(502,000)</u>	<u>(454,000)</u>	<u>(390,000)</u>
Contribution deficiency (excess)	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>
Hospital's covered-employee payroll	\$ 6,103,000	\$ 5,602,000	\$ 5,234,000	\$ 4,829,000
Contributions as a percentage of covered-employee payroll	9.04%	8.96%	8.67%	8.08%

Note - Amounts are rounded

See accompanying independent auditor's report.

<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
\$ 338,000	\$ 328,000	\$ 322,000	\$ 294,000	\$ 275,000	\$ 266,000
<u>(338,000)</u>	<u>(328,000)</u>	<u>(322,000)</u>	<u>(294,000)</u>	<u>(275,000)</u>	<u>(266,000)</u>
<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>
\$ 4,860,000	\$ 4,930,000	\$ 5,042,000	\$ 4,854,000	\$ 4,781,000	\$ 4,689,000
6.95%	6.65%	6.39%	6.06%	5.75%	5.67%

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Notes to Required Supplementary Information - Pension Liability
Year Ended June 30, 2015

Changes of benefit terms:

Legislation passed in 2010 modified benefit terms for current Regular members. The definition of final average salary changed from the highest three to the highest five years of covered wages. The vesting requirement changed from four years of service to seven years. The early retirement reduction increased from 3% per year measured from the member's first unreduced retirement age to a 6% reduction for each year of retirement before age 65.

In 2008, legislative action transferred four groups - emergency medical service providers, county jailers, county attorney investigators, and National Guard installation security officers - from Regular membership to the protection occupation group for future service only.

Benefit provisions for sheriffs and deputies were changed in the 2004 legislative session. The eligibility for unreduced retirement benefits was lowered from age 55 by one year each July 1 (beginning in 2004) until it reached age 50 on July 1, 2008. The years of service requirement remained at 22 or more. Their contribution rates were also changed to be shared 50-50 by the employee and employer, instead of the previous 40-60 split.

Changes of assumptions:

The 2014 valuation implemented the following refinements as a result of a quadrennial experience study:

- Decreased the inflation assumption from 3.25% to 3.00%.
- Decreased the assumed rate of interest on member accounts from 4.00% to 3.75% per year.
- Adjusted male mortality rates for retirees in the Regular membership group.
- Reduced retirement rates for sheriffs and deputies between the ages of 55 and 64.
- Moved from an open 30 year amortization period to a closed 30 year amortization period for the UAL beginning June 30, 2014. Each year thereafter, changes in the UAL from plan experience will be amortized on a separate closed 20 year period.

The 2010 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted retiree mortality assumptions.
- Modified retirement rates to reflect fewer retirements.
- Lowered disability rates at most ages.
- Lowered employment termination rates.
- Generally increased the probability of terminating members receiving a deferred retirement benefit.
- Modified salary increase assumptions based on various service duration.

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Notes to Required Supplementary Information - Pension Liability
Year Ended June 30, 2015

The 2007 valuation adjusted the application of the entry age normal cost method to better match projected contributions to the projected salary stream in the future years. It also included in the calculation of the UAL amortization payments the one-year lag between the valuation date and the effective date of the annual actuarial contribution rate.

The 2006 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted salary increase assumptions to service based assumptions.
- Decreased the assumed interest rate credited on employee contributions from 4.25% to 4.00%.
- Lowered the inflation assumption from 3.50% to 3.25%.
- Lowered disability rates for sheriffs and deputies and protection occupation members.

* * *

COMMENTS AND RECOMMENDATIONS

Gronewold, Bell, Kyhnn & Co. P.C.

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Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

To the Board of Trustees
Humboldt County Memorial Hospital
Humboldt, Iowa

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Humboldt County Memorial Hospital, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Humboldt County Memorial Hospital's basic financial statements and have issued our report thereon dated October 30, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Humboldt County Memorial Hospital's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Humboldt County Memorial Hospital's internal control. Accordingly, we do not express an opinion on the effectiveness of the Humboldt County Memorial Hospital's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses that we consider to be significant deficiencies: 15-I-A.

To the Board of Trustees
Humboldt County Memorial Hospital

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Humboldt County Memorial Hospital's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters which are described in Part II of the accompanying schedule of findings and responses.


Comments involving statutory and other legal matters about the Hospital's operations for the year ended June 30, 2015 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Hospital. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Responses to Findings

Humboldt County Memorial Hospital's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. Humboldt County Memorial Hospital's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

 - Co. P.C.

Atlantic, Iowa
October 30, 2015

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Schedule of Findings and Responses
Year ended June 30, 2015

PART I - SIGNIFICANT DEFICIENCIES

15-I-A Segregation of Duties: A limited number of people have the primary responsibility for most of the accounting and financial duties. As a result, some of those aspects of internal accounting control which rely upon an adequate segregation of duties are, for all practical purposes, missing in the Hospital. However, this situation is common in rural hospitals.

Recommendation: We recognize that it may not be economically feasible for the Hospital to employ additional personnel for the sole purpose of segregating duties, however, it is our professional responsibility to bring this control deficiency to your attention. We recommend that the members be aware of the lack of segregation of duties and that they act as an oversight group to the accounting personnel.

Response: The Board is aware of this lack of segregation of duties, but it is not economically feasible for the Hospital to employ additional personnel for this reason. The Board will continue to act as an oversight group.

Conclusion: Response accepted.

PART II - REQUIRED STATUTORY REPORTING

15-II-A Certified Budget: Hospital expenditures during the year ended June 30, 2015 exceeded amounts budgeted by approximately \$251,000. The excess was caused by higher than expected expenses resulting from additional services performed.

Recommendation: We recommend the Hospital periodically compare the budgeted expenditures to actual during the year, so an amended budget can be filed timely if it appears expenditures will exceed the amounts budgeted.

Response: We will periodically review the actual expenditures in the future and file an amended budget if necessary.

Conclusion: Response accepted.

15-II-B Questionable Expenses: During the audit, we noted a certain expenditure approved in the Board minutes that may not meet the requirements of public purpose as defined in the Attorney General's opinion dated April 25, 1979. The expense was as follows:

<u>Paid to</u>	<u>Purpose</u>	<u>Amount</u>
Various Organizations	Employee recognition banquet	\$ 7,063

Recommendation: We recommend that the Board continue to document the public purpose of such an expenditure before authorization is given.

Response: The expenditure is considered part of the employee benefit package and the Board feels it meets the requirements of public purpose as defined by the Attorney General's opinion dated April 25, 1979.

Conclusion: Response accepted.

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Schedule of Findings and Responses
Year ended June 30, 2015

PART II - REQUIRED STATUTORY REPORTING - Continued

15-II-C Travel Expense: No expenditures of Hospital money for travel expenses of spouses of Hospital officials and/or employees were noted.

15-II-D Business Transactions: Business transactions between the Hospital and Hospital officials and/or employees are detailed as follows:

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Mike Porter, Maintenance Director, Owner of C & M Repair	Miscellaneous ambulance repairs	\$ 3,807

The transactions with C & M Repair do not appear to represent conflicts of interest since the purchases are not from an entity in which a trustee has a pecuniary interest and another department director approves the purchases.

15-II-E Board Minutes: No transactions were found that we believe should have been approved in the Board minutes but were not.

15-II-F Deposits and Investments: We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the Hospital's investment policy.

15-II-G Economic Development: During the year ended June 30, 2015, the Hospital paid \$1,000 to the Humboldt County Development Association. The Hospital Board has documented the public benefits received from this expenditure, however, it is disclosed here for public information.

According to Chapter 15A of the Code of Iowa and an Attorney General's opinion dated August 28, 1986, government financing of economic development may, in appropriate circumstances, serve a public purpose. The opinion advises the governing body to evaluate the public benefits to be obtained and discusses the specific criteria to be considered in documenting public purpose.

Recommendation: The Board should continue to evaluate and document the public purpose served by these expenditures before authorizing further payments.

Response: We will continue to evaluate and document the public purpose in the future.

Conclusion: Response accepted.

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